

Underwriting Risks and Performance

The Insurance operation in the Nordic region is organizationally divided into Business Areas by customer segment - Private, Commercial (small and medium sized companies) and Industrial (large corporates). Insurance operations in the Baltic countries are organized in one Business Area, Baltic. Business Area Private is the largest by premium volume, accounting for more than half of total premium income.

- Business Area Private's gross premium income increased during the year, driven by continued good customer loyalty and strong new car sales. Underwriting performance was also supported by a favourable claims trend.
- Business Area Commercial had positive premium growth, whereas the large claims outcome, especially in Sweden and Norway, had an adverse impact on the overall underwriting result.

- Business Area Industrial's underwriting performance improved during the year, due to positive premium growth and stable costs, both with regards to claims and operations.
- Business Area Baltic's underwriting results were higher than in the preceding year, reflecting positive premium development combined with a favorable claims outcome and continued cost efficiency.

If P&C's three major Solvency II Lines of Business are Motor vehicle liability insurance, Other motor insurance and Fire and other damage to property insurance. The table If P&C Underwriting Performance, 31 December 2017 presents the development of If P&C's premiums, claims, operating expenses, reinsurer's share and underwriting performance per Solvency II Lines of Business for the last two years.

If P&C Underwriting Performance 31 December 2017 and 31 December 2016

Underwriting performance by SII LoB (EURm)	2017		2016		2017		2016		2017		2016		Total underwriting performance direct insurance
	Premiums written	Premiums earned	Claims incurred	Operating expense	Reinsurers share per LoB								
Medical expense insurance	131.3	125.4	129.0	132.9	69.6	74.2	34.0	33.4	0.1	0.1	25.3	25.1	
Income protection insurance	397.4	369.1	381.9	367.1	236.5	248.9	80.3	79.1	-0.5	0.3	65.6	38.8	
Workers' compensation insurance	198.6	194.1	199.3	198.5	43.5	54.3	36.7	41.6	5.3	2.9	113.8	99.7	
Motor vehicle liability insurance	589.7	615.0	599.1	620.1	307.7	274.4	185.0	180.7	-0.1	0.0	106.4	165.0	
Other motor insurance	1,334.3	1,301.1	1,296.7	1,271.0	892.0	849.9	244.9	253.1	0.7	1.6	159.0	166.5	
Marine, aviation and transport insurance	117.6	117.9	117.6	119.5	95.1	61.3	24.9	24.7	-2.2	10.8	-0.2	22.6	
Fire and other damage to property insurance	1,433.7	1,425.9	1,424.8	1,435.0	877.8	883.1	300.4	308.0	50.2	76.6	196.4	167.3	
General liability insurance	271.0	259.9	264.9	261.2	131.5	158.7	51.8	51.1	12.7	-9.1	68.9	60.4	
Assistance	14.4	15.0	14.2	15.7	12.4	12.4	2.5	2.7	0.0	0.0	-0.7	0.5	
Other Life insurance	37.8	34.7	36.5	33.1	8.6	6.2	8.6	7.1	2.0	1.8	17.3	18.0	
Annuities stemming from non-life insurance contracts and relating to health insurance obligations	0.0	0.0	0.0	0.0	77.3	66.7	0.0	0.0	0.0	0.0	-77.3	-66.7	
Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	0.0	0.0	0.0	0.0	60.8	52.2	0.0	0.0	-0.0	0.0	-60.8	-52.2	
Total (excluding other expenses)	4,525.7	4,458.1	4,464.0	4,454.1	2,812.8	2,742.5	969.2	981.6	68.3	84.9	613.7	645.0	
Other expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.0	0.0	8.0	15.4	
Total	4,525.7	4,458.1	4,464.0	4,454.1	2,812.8	2,742.5	969.2	981.6	68.3	84.9	621.7	660.4	

The figures are segmented in accordance with Solvency II defined Lines of Business, which differ from the insurance class segmentation according to local GAAP or IFRS requirements that are used in other tables.

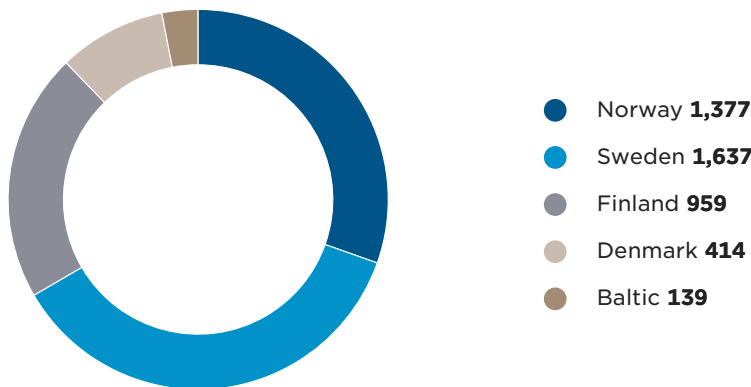
As shown in the below figure Breakdown of Gross Written Premiums by Business Area, Country and Line of Business, If P&C, 2017, the If P&C insurance portfolio is well diversified

across Business Areas, Countries and Lines of Business. The six Lines of Business are segmented in accordance with insurance class segmentation used in IFRS.

Breakdown of Gross Written Premiums by Business Area
If P&C, 2017, total EUR 4,526 million

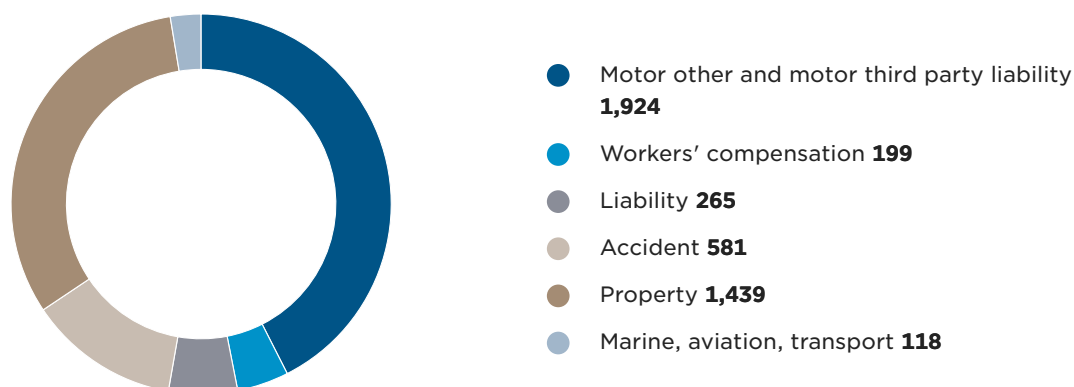


Breakdown of Gross Written Premiums by Country
If P&C, 2017, total EUR 4,526 million



Breakdown of Gross Written Premiums by Line of Business

If P&C, 2017, total EUR 4,526 million



The following adjustments from IFRS LoB's to Solvency II LoBs are made:

- IFRS Line of Business Motor other and Motor third party liability (1,924) include Solvency II Line of Business Motor vehicle liability insurance (590) and Other motor insurance (1,334).
- IFRS Line of Business Accident (581) includes Solvency II Line of Businesses Income protection insurance (397), Other Life (38), Medical expense insurance (131) and Assistance (14).

The item Other (including group eliminations) is not shown in the breakdowns above but is included in total gross written premiums. There are minor differences between the figures reported by Sampo Group and If P&C due to differences in foreign exchange rates used in consolidation.

Premium and Catastrophe Risk and Their Management and Control

Definitions of premium and catastrophe risk can be found in [Appendix 2 \(Risk Definitions\)](#).

Despite the diversified portfolio, risk concentrations and consequently severe claims may arise through, for example, exposures to natural catastrophes such as storms and floods. The geographical areas most exposed to such events are Denmark, Norway and Sweden. In addition to natural catastrophes, single large claims could have an impact on the

insurance operations' result. The negative economic impact of natural catastrophes and single large claims is effectively mitigated by having a well-diversified portfolio and a group wide reinsurance program in place.

The sensitivity of the underwriting result and hence underwriting risk is presented by changes in certain key figures in the table Sensitivity Test of Underwriting Result, If P&C, 31 December 2017 and 31 December 2016.

Sensitivity Test of Underwriting Result

If P&C, 31 December 2017 and 31 December 2016

Key figure	Current level (2017)	Change in current level	Effect on pretax profit, EURm	
			2017	2016
Combined ratio, business area Private	84.0%	+/- 1 percentage point	+/- 26	+/- 26
Combined ratio, business area Commercial	88.0%	+/- 1 percentage point	+/- 12	+/- 12
Combined ratio, business area Industrial	88.7%	+/- 1 percentage point	+/- 4	+/- 4
Combined ratio, business area Baltics	88.9%	+/- 1 percentage point	+/- 1	+/- 1
Net premiums earned (EURm)	4,294	+/- 1 per cent	+/- 43	+/- 43
Net claims incurred (EURm)	2,959	+/- 1 per cent	+/- 30	+/- 29
Ceded written premiums (EURm)	168	+/- 10 per cent	+/- 17	+/- 17

The Underwriting Committee ("UWC") shall give its opinion on and propose actions in respect of various issues related to underwriting risk. The committee also considers and proposes changes to the Underwriting Policy ("UW Policy"),

which is the principal document for underwriting, and sets general principles, restrictions and directions for the underwriting activities. This document shall be reviewed and decided at least yearly by the Boards of Directors.

The Chairman of the UWC is responsible for the reporting of policy deviations and other issues dealt with by the committee.

The UW Policy is supplemented with guidelines outlining in greater detail how to conduct underwriting within each Business Area. These guidelines cover areas such as tariff and rating models for pricing, guidelines in respect of standard conditions and manuscript wordings, as well as authorities and limits. In accordance with the Instructions for the Underwriting Committee, the Committee monitors compliance with the established underwriting principles.

The Business Areas manage the underwriting risk on a day-to-day basis. A crucial factor affecting the profitability and risk of non-life insurance operations is the ability to accurately estimate future claims and expenses and thereby correctly price insurance contracts. The premiums within the Private Business Area and the premiums for smaller risks within the Commercial Business Area are set through tariffs. The underwriting of risks in the Industrial Business Area and

of more complex risks within the Commercial Business Area is based to a greater extent on principles and individual underwriting than on strict tariffs. In general, pricing is based on statistical analyses of historical claims data and assessments of the future development of claims frequency and claims inflation.

If P&C's Reinsurance Policy stipulates guidelines for the purchase of reinsurance. The need and optimal choice of reinsurance is evaluated by looking at the expected cost versus the benefit of the reinsurance, the impact on result volatility and impact on capital requirements. The main tool for this evaluation is If P&C's internal model in which frequency of claims, large claims and natural catastrophes are modelled.

A group-wide reinsurance program has been in place in If P&C since 2003. In 2017, retention levels were between SEK 100 million (approximately EUR 10.2 million) and SEK 250 million (approximately EUR 25.4 million) per risk and SEK 250 million (approximately EUR 25.4 million) per event.

Reserve Risk and Its Management and Control

Definition of reserve risk can be found in [Appendix 2 \(Risk Definitions\)](#).

The main reserve risks for If P&C are stemming from uncertainty in the claim amounts caused by higher claim inflation and increases in life expectancy than expected, with the consequences that both annuities and lump sum payments would increase.

In the table Technical Provisions by Line of Business and Major Geographical Area, If P&C, 31 December 2017 below, If P&C's technical provisions and durations are presented by Line of Business and Major Geographical Area. When the breakdown of technical provisions is compared to the

breakdown of gross written premiums it can be seen that Finland's and Sweden's share of technical provisions is larger than the share of gross written premiums. This is mainly due to Sweden and Finland having a long duration of Motor other and Motor third party liability and Finland also having a long duration of Workers compensation. The long duration is mainly due to annuities in these lines of business, which increases the amount of technical provisions. The duration of the provisions, and thus the sensitivity to changes in interest rates, varies with each product portfolio. The weighted average duration for 2017 across the product portfolios was 6.5 years.

Technical Provisions by Line of Business and Major Geographical Area If P&C, 31 December 2017

	Sweden		Norway		Finland		Denmark		Total	
	EURm	Duration	EURm	Duration	EURm	Duration	EURm	Duration	EURm	Duration
Motor other and MTPL	2,516	7.5	536	1.4	1,033	12.7	160	1.8	4,245	7.8
Workers' compensation	0	0.0	218	5.0	1,199	12.1	252	6.7	1,669	10.4
Liability	268	2.7	127	1.4	122	3.0	74	1.9	591	2.4
Accident	327	4.9	372	5.7	156	4.3	94	1.7	948	4.8
Property	407	1.2	475	0.9	226	1.1	99	1.0	1,207	1.0
Marine, aviation, transport	21	1.9	48	0.6	10	0.9	23	1.2	101	1.0
Total	3,537	6.1	1,775	2.5	2,746	10.5	701	3.1	8,760	6.5

As on Sampo's annual report 2017 figures are excluding Baltic, total EUR 140 million.

Reserves are exposed mainly to inflation and discount rates and to some extent to life expectancy. The sensitivity of If

P&C's technical provisions to an increase in inflation, an increase in life expectancy and a decrease in the discount rate

is presented in the table Sensitivities of Technical Provisions, If P&C, 2017.

Sensitivities of Technical Provisions If P&C, 2017

Technical provision item	Risk factor	Change in risk parameter	Country	Effect EURm 2017
Nominal provisions	Inflation increase	Increase by 1%-point	Sweden	183.8
			Denmark	11.7
			Norway	53.3
			Finland	37.4
Annuities and estimated share of claims provisions to future annuities	Decrease in mortality	Life expectancy increase by 1 year	Sweden	24.6
			Denmark	1.6
			Finland	66.2
Discounted provisions (annuities and part of Finnish IBNR)	Decrease in discount rate	Decrease by 1%-point	Sweden	66.2
			Denmark	13.3
			Finland	299.3

From 2014 onwards the estimated share of claims provision to future annuities are included in the life expectancy increase sensitivity.

If P&C's technical provisions are further analyzed by claims years. The output from this analysis is illustrated both before and after reinsurance in the claims cost trend tables. These are disclosed in the [Note 25](#) to the Financial Statements.

The anticipated inflation trend is taken into account when calculating all provisions and is of the utmost importance for claims settled over a long period of time, such as Motor other and Motor third party liability and Workers' compensation. The anticipated inflation is based on external assessments of the inflation trend in various areas, such as the consumer price index and payroll index, combined with If P&C's own estimation of costs for various types of claims. For lines of business such as Motor other and Motor third party liability and Workers' compensation, legislation differs significantly between countries. Some of the Finnish, Swedish and Danish technical provisions for these lines include annuities which are sensitive to changes in mortality assumptions and discount rates. The proportion of technical provisions related to Motor other and Motor third party liability and Workers' compensation was 68 per cent.

The Board of Directors of If P&C decides on the guidelines governing the calculation of technical provisions. If P&C's Chief Actuary is responsible for developing and presenting

guidelines on how the technical provisions are to be calculated and for assessing whether the level of total provisions is sufficient. On If P&C group level the Chief Actuary issues a quarterly report on the adequacy of technical provisions.

The Actuarial Committee is a preparatory and advisory board for If P&C's Chief Actuary. The committee secures a comprehensive view over reserve risk, discusses and gives recommendations on policies and guidelines for calculating technical provisions.

The actuaries continuously monitor the level of provisions to ensure that they comply with the established guidelines. The actuaries also develop methods and systems to support these processes.

The actuarial estimates are based on historical claims and existing exposures that are available at the balance sheet date. Factors that are monitored include loss development trends, the level of unpaid claims, changes in legislation, case law and economic conditions. When setting property and casualty provisions, the Chain Ladder and Bornhuetter-Fergusson methods are generally used, combined with projections of the number of claims and average claims costs. For life provisions, the IBNR calculations are based on the estimated claims cost (risk premium) over the average time from claim occurrence to reporting.